The Snack Foods Market in China

September 1999

(Également disponible en français sous le titre, Le marché des aliments de collation en Chine)

Prepared by the
Team Canada Market Research Centre
and the
Canadian Trade Commissioner Service

(FaxLink no. 34977)

Canada

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The Team Canada Market Research Centre
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THE SNACK FOOD MARKET IN CHINA

Team Canada Inc • Équipe Canada inc

EXECUTIVE SUMMARY

Through steps to open its markets to international exporters, and to comply with World Trade Organization (WTO) membership application requirements, global trade with China has changed significantly in recent years. Opportunities are available to foreign companies to enter the Chinese snack food market, with tax and land incentives offered to lure foreign business to China's special economic zones, and tariffs lowered to invite imports.

The snack food market in China is substantial, although it is not fully developed. While traditional Asian snacks are popular among older generations, particularly during special celebrations, festivals and other social gatherings, younger generations have developed a taste for imported Western-style snacks, creating a growing market for these snacks. Until the July 1997 reunification of China and Hong Kong, market statistics were reported independently, therefore portions of this report will refer to China and Hong Kong statistics separately, though it is now a single market.

The total snack food market in China was valued at $3.8 billion in 1997, which included eastern-style snacks and western-style snacks. This report will focus on western snacks, which are further divided into three sectors: sweets, savoury snacks and frozen snack foods. The savoury snacks sector in mainland China in 1997 was $98 million, while sales in Hong Kong reached $178 million. Total sales figures for each of the sectors are difficult to obtain due to differences in the definition of "snack foods," and subsequent inconsistencies in reporting of these figures between countries.

Growth in the snack food market is expected to continue over the next few years, with some sectors estimated to grow by as much as 120% by 2002. While Chinese market concentration is low in comparison with European or North American markets, it is expected to experience amalgamations and mergers in the long term, leading to a select few brands holding up to 50% of market share. Currently, good opportunities exist for foreign companies that are willing to enter the market through joint ventures with Chinese counterparts. Among those products forecast to be particularly successful are those targeted toward health-conscious consumers.

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MARKET OVERVIEW

Boasting a population of more than 1.2 billion, China's place as the world's most populated nation is driving interest among companies from around the globe. However, due to socialist economic principles traditionally practised by the Chinese government, China remains a relatively new market for international exporters looking to explore opportunities in foreign markets. More recently, China has adopted a fundamentally free market approach to resource allocation, while retaining indirect regulatory control.

China's economy is doubling every eight years, and its GDP quadrupled between 1980 and 1995. Real GDP growth reached 9.7% in 1996, slowing to 8.8% in 1997. Although official estimates put 1998 GDP growth at 8%, it is more likely that growth will slow to 7%. China is increasingly active in the world economy, ranking as the world's 11th largest trading nation before the Hong Kong reunification. The nation accounts for 2% of world trade, and foreign trade accounts for 35% of its GNP.

The Chinese government is moving towards balanced growth, with trickle-down expansion from the rapidly growing eastern seaboard economy moving toward the interior. During the Ninth Five-Year Plan (1996–2000) period and thereafter, China hopes to attract investment into the interior of the country from foreign and domestic sources.

China's snack food market, which features a wide variety of products, was valued at $3.8 billion in 1997. Two distinct categories emerge in this very competitive market: Eastern-style traditional snacks and Western-style snacks.

Eastern-style snacks, which tend to be traditional, healthier options, include dried and preserved fruits, seeds and nuts, dried meats, and dried cuttlefish and shrimp. The favourite among older consumers, these inexpensive snacks are often used at social gatherings. Further divided between sweet and savoury, Eastern-style snacks are sold loose, and include inedible waste, such as a shell or pit. Some consumers find this type inconvenient when compared with fully edible Western-style snack foods. The focus of this report will be on Western-style snack foods, however one should not ignore market competition from Chinese-style snacks.

Western-style snack foods include chocolates, potato chips, crackers, cookies, popcorn, candy and ice cream. Typically purchased by younger consumers who are more attracted by taste than nutrition, these snacks are purchased for impulse consumption and are rarely served on social occasions. They are usually packaged, and are therefore more expensive.

In addition to the sweet and savoury market categories, Western-style snack foods can also be categorized as frozen products. Snack food products are seasonal, with sales of savoury and sweet snacks declining during the summer heat, and frozen snacks enjoying a boom. Increased sales for salty and sweet products are evident through October, peaking at the Chinese New Year. During this same period, frozen sales drop off.

Rice crackers hold a 40% overall share of the savoury snacks market. However, there is a significant difference between the northern mainland and southern mainland markets. In the north, less than 20% of the total sales are from rice products, while in the south, they captured half the market. Potato chips and vegetable puffs follow at 15% and 10% of overall sales, respectively.

The packaged savoury snacks market, excluding ethnic Chinese snacks, reached sales of $98.1 million in mainland China in 1997. More than 95% of the sales volume was in packaged nuts, with peanuts comprising 84.3% of total nut sales. Packaged nuts, such as cashews and pistachios, accounted for nearly 90% of the import value of savoury snacks in 1997. Imports of this commodity increased significantly in the 1993-97 period, rising by 195%.

Sales of potato chips — the most popular Western-style snack in China — grew by 202% between 1993 and 1997, to reach $14.7 million. This market is forecast to experience a 118% value growth rate between 1998 and 2002.

Total sales of savoury snacks in Hong Kong in 1997 were $178 million. Potato chips accounted for $73.8 million of that total. However, consumers in Hong Kong are becoming more health conscious. Therefore, healthier snacks may enjoy a larger market opportunity in the future.

The Chinese snack food market is expected to continue to develop and diversify as more players enter in the coming years. Despite the presence of a large number of competitors, market concentration — the market share claimed by leading brands — is surprisingly low. This low-level market concentration demonstrates the immaturity of the snack food market, as well as the number of products competing for a share of the pie. It is both an opportunity for and a warning to companies that are considering entering the market. While product proliferation and high growth rates may allow many brands to

survive over the short term, mergers and amalgamation will likely reduce the number of brands over the longer term, bringing market concentration figures more in line with Western markets.

Asian Crisis

The financial crisis that began in parts of Asia Pacific in 1997 and continued through 1998 has had an impact on Canadian trade performance and opportunities in the region, however the crisis did not greatly affect China. Currency devaluations in countries such as Thailand, South Korea, Indonesia and Malaysia have not only increased the cost of Canadian goods for consumers in these countries, but have also increased competition for Canadian products, since goods from these countries can be imported more cheaply into countries such as Japan that have stronger currencies. Simultaneously, the crisis had a negative affect on Asian incomes, affecting consumer spending and consequently the demand for imports.

However, by early 1999, most of these economies had begun to "turn the corner," and it may be expected that exchange rates will also begin to strengthen, thus improving the competitiveness of imported Canadian products.

Key Factors Shaping Market Growth

The demand for less-expensive, higher-quality mass brands in the expanding snack food market in China has already brought about several joint ventures, and will likely bring more. However, past market entry and penetration strategies are likely to be replaced by a focus on defending existing market shares for well established companies with large Asian interests.

Further, the reunification of China and Hong Kong is changing the dynamics of the Hong Kong market. Hong Kong's role as a re-exporting port and free-trade regime will remain in place for at least 50 years from the time of the handover, though duties will still be applied to products imported through Hong Kong, destined for China. Hong Kong experienced a post-handover decline in its economic growth rate, with consumer anxiety and low confidence inhibiting spending, particularly on luxury goods. The impact of reunification on spending habits in China was not as significant as in Hong Kong.

"Socialized liberalization," the gradual opening of markets within a socialist plan, has created opportunities in the markets for joint ventures and various importing options. This liberalization will allow foreign companies to establish production facilities within China to avoid the high tariffs charged to imports, thus making foreign products more competitive with local brands.

China's "one child" family planning policy, combined with increasing disposable income from two working parents and two sets of grandparents, has led to a largely urban "Little Emperor" phenomenon. Small financial rewards and extra attention paid to the child result in more money being spent on luxury goods and treats, such as snack foods, both by and for young children. Many snack food packages, products and advertisements are targeted at children.

Western-style savoury snacks have been available in China for a number of years. Although most of these products have typically been of low quality, the situation is changing since a number of foreign companies have launched higher-quality products in recent years. The Chinese preference for sweet or ethnic snacks initially inhibited growth in this sector, but potato chip imports to China increased steadily from 1993 to 1997. This has resulted in increased domestic production of potato chips, although production is still limited in quality and variety, and market demand is supplemented by imports.

As living standards have improved and consumers were able to afford more imported and high quality food products, tastes moved to include Western foods. However, this also led to increasing obesity among Chinese consumers, particularly children. As a result, nutrition and health concerns have become more evident. Companies that take the initiative to promote the nutritional value of their products may have an advantage.

Historically, people living in urban centres have purchased the most snack foods, especially from Western companies. While this trend is not likely to change, rural citizens are more likely to be influenced by Western lifestyles as their income slowly increases. Income increases will do little in the short term to offset the decreased spending by urbanites due to the economic crisis, but in the long term, it will mean higher sales for the developing market.

Opportunities

Good opportunities exist for foreign companies that are willing to enter the market through joint ventures with Chinese savoury snack companies. Chinese partners can benefit from the product knowledge and the quality of Western foods, while Western partners can benefit from the market experience and business contacts of the Chinese partners.

As well, opportunities exist for Canadian exporters of healthy snacks as a result of the movement toward more health-conscious products, which is beginning in Hong Kong but is sure to spread through China. Products with fewer calories, lower salt content, and more natural ingredients are currently desirable, but low-fat products will undoubtedly be in high demand as their health benefits become more known.

Actual and Planned Projects

In August 1997, Want Want Holdings Ltd. of Singapore, a leading snack and beverage company in China and Taiwan, formed a joint venture with General Mills, Inc. of the United States to develop a savoury snacks business in China. Through this joint effort, the two companies will develop new high-quality snack products far more quickly and comprehensively than either could have accomplished independently. Each company will share equally in the ownership of and investment in the new venture.

A Sino-New Zealand joint venture launched in late 1996 in Weining, Guizhou province, has performed extremely well. Using locally sourced potatoes, N & W chips rapidly gained a reputation for quality and is now known as a top-end producer of potato chips.

Beginning in early 1997, Kumho Group of South Korea invested US$25 million to build a confectionery goods and cookies plant in China. By 2002, an additional US$25 million will be spent on the Qingdao Kumho Foods Co.(China) plant to add production facilities for ice cream and beverages. This will make the Kumho Group a significant player in the evolving snack food market.

COMPETITIVE ENVIRONMENT

Local Capabilities

The 1997 reunification of Hong Kong and China provided opportunities for Hong Kong's snack food companies to increase trade of savoury snack products with the mainland, as customs and import regulations were reduced or simplified. While snack food production capabilities in Hong Kong are relatively limited, the opposite is true in mainland China, where the snack food industry is quite well developed in the number of products on the market and number of players involved. Products from Chinese snacks market participants tend to be along the lines of ethnic Chinese snacks. Although some have started producing Western-style snacks, this is usually done in conjunction with foreign companies.

International Competition

In addition to capitalizing on existing business contacts and knowledge of distribution networks, joint ventures between foreign companies and Chinese businesses are increasingly formed in an effort to increase their equity share or to establish privately owned plants. Creative partnerships to maximize the expertise or capabilities of each party are also being formed.

PepsiCo and the Sino-Taiwan joint-venture company, Wang Wang, have a production-for-distribution arrangement. Wang Wang, which produces Wang Wang rice crackers and Lonely God potato twists in Beijing, Nanking (Jinagsu province), and Hunan province, distributes Cheetos and other PepsiCo snack foods through China. In exchange, PepsiCo produces Lonely God potato twists at its joint-venture plant in Guangzhou.

Within the past four years, U.S. food manufacturers Nabisco, Kraft, Dove, M & M, Mars, San Marlo, and others have invested in local manufacturing facilities. Because the products are manufactured locally, the companies have lower labour costs and avoid high import tariffs. These lower costs in turn help to keep retail prices down. Having local manufacturing premises also allow the companies to tailor the final product packaging and marketing to the local market.

Proctor and Gamble successfully entered the Chinese snack food market with its imported Pringles potato chips through a strong in-store marketing campaign. This was accomplished despite premium pricing, and without television or print advertising. Other recent import entrants include Del Monte raisins, Pez candy, Nature's Favorite apple chips, and U.S. pistachios and almonds.

Taiwanese and Japanese snack food manufacturers have also entered the market with chips and crackers suited to the local dietary and cultural tastes. In addition, marketing and packaging tailored to the market have made brands such as Mamee, Wang Wang, Kangshifu, Khongyuen and Oishi very successful.

Canadian Position

Canada has only a small role in China's snack food market. A small quantity of Canadian candies and chocolates are available in the Shanghai market at local friendship stores, which cater their products to foreign tourist customers only. For example, Kerr hard candies and Dare cookies are imported through southern China, bound for the Shanghai Friendship Store. However, Canadian candies tend to be more expensive than locally produced products.

Competitive Advantage through Canadian Government Policies and Initiatives

Export Development Corporation (EDC) offers export financing and insurance to Canadian exporters. Additionally, insurance can be provided for larger transactions that are subject to the terms and conditions established by the buyer. EDC prefers to work through letters of credit, banks credits or bank guarantees. Details and approval for financing will be considered case by case. For more information, please contact EDC.

The Canadian Commercial Corporation (CCC) also offers small and medium-sized Canadian companies access to financing and better payment terms under the Progress Payment Program (PPP). The PPP concept was developed as a partnership between major Canadian financial institutions and the CCC. It enables the exporter's bank to open a project line of credit for the exporter's benefit, based on CCC approval of the project and the exporter's ability to perform. For more information, please contact the CCC.

The Program for Export Market Development (PEMD) is the government's primary international business development program. The objective of PEMD is to increase export sales of Canadian goods and services by sharing the costs of activities that companies normally could not or would not undertake alone, thereby reducing risks involved in entering a foreign market. The PEMD refundable contribution is a minimum of $5,000 and a maximum of $50,000. Preference is given to companies with annual sales greater than $250,000 and less than $10 million, or with less than 100 employees for a firm in the manufacturing sector and 50 in the service sector. Eligible activities, the costs of which are shared on a 50/50 basis, include market visits, trade fairs, incoming buyers, product testing for market certification, legal fees for marketing agreements abroad, transportation costs for offshore company trainees, product demonstration costs, promotional materials, and other costs necessary to execute the market development plan (Other components of the program deal with international bid preparation under Capital Project Bidding, and with trade associations when developing international marketing activities for their membership.) For additional information, or to receive an application, please contact the International Trade Centre in your province.

PRIVATE-SECTOR CUSTOMERS

Higher levels of personal income in China have resulted in more spending on snack food items, and have also prompted the development of a more discriminating consumer. Price is still the first determinant when purchasing, but convenience and appearance are also considered. Transportation, tariffs and other import costs result in premium pricing on most imported foods, often making it difficult for foreign brands to compete with locally-produced items. However, a higher price will not inhibit the purchase of a recognizable brand snack, particularly if it is to be a gift, such as for a child, and the consumer feels product quality merits the higher price.

Consumers will also accept relatively higher prices when they are familiar with the brand. With the ever-proliferating number of players in the growing Chinese snack food market, brand recognition will become very important.

Other considerations in purchasing are flavouring, which creates perceptions of quality, sanitation (especially in large urban centres), and familiarity. Certain traditional Chinese tastes, such as chicken, shrimp and pork, outsell beef-flavoured snacks. However, this may change for younger generations who are exposed to Western foods.

The number of supermarkets in China has grown over the past few years, with broader selections of foods, moving a significant amount of business away from the numerous smaller independent shops. In Hong Kong, for example, supermarkets accounted for 28% of total retail sales of savoury snacks in 1997, the largest portion of market sales that year. Although the smaller shops, which are situated in the communities they serve, are still reaching high sales, their share of total sales dropped from 49% in 1993 to 38% in 1997.

Despite the growing share of supermarkets, the importance of targeting these smaller "Mom and Pop" retail outlets should not be ignored. They are more numerous than supermarkets, and serve rural communities. They also dominate the impulse and late-night retail food sector in most urban centres, are often open later than supermarkets, though they have limited, seasonal snack selection. The recent appearance of convenience stores, many of which provide 24-hour service, has increased accessibility to snack foods and impulse purchases. These stores also carry a wider selection of snacks than the Mom and Pop stores and tend to cater to teenagers' snacking habits.

PUBLIC-SECTOR CUSTOMERS

Government Organizations

Despite increased liberalization, the Chinese government is still heavily involved in the retail sector. Typically, the government is involved in state-run shops, in which products are stocked behind counters and handed to customers by the staff. State-owned stores have begun to lose business with the opening of supermarkets, which offer a wider selection of products.

Government Procurement Regulations

As a result of the increasing number of joint ventures being formed, the Chinese government investment approval authorities are beginning to require foreign companies to retain the local brand name of Chinese consumer goods companies that they may acquire. This stipulation was introduced because of previous instances of Chinese food products being phased out to promote the foreign brand following a take-over.

Every product sold by retail shops must be approved by the state commercial bureau and/or its provincial bureau.

MARKET LOGISTICS

Due to the fact that each region within China oversees its own food and beverage distribution system, inter-regional trade has traditionally been weak. As a direct result, local officials often regard regional economies as proprietary, frequently creating barriers for products from other regions or countries. The development of retail chains is expected to improve this situation. Companies exporting to China may wish to invest in their own distribution infrastructure, or form distribution agreements with other western companies, to avoid any logistical problems or delays.

Given China's internal transportation difficulties and developmental disparities across regions, distribution systems vary significantly by region and market. Exporters are therefore encouraged to explore regional or metropolitan markets rather than attempting national distribution. The eastern costal regions of China, which include the states of Shanghai and Beijing, represent the strongest consumer markets for imported goods.

In contrast to the situation in China is Hong Kong's thorough and efficient distribution infrastructure of roadways, railways, and shipping companies. Hong Kong's role as a major import port for China will likely continue for the next half century. In an advanced retail sector, Hong Kong also has an expanding number of supermarkets, convenience stores, hypermarkets and warehouse stores.

Channels of Distribution

Several ports of entry exist in China, however Hong Kong will retain its free trade port status for 50 years from the time of reunification, making it one of the preferable import ports. Although it can be expensive to ship through Hong Kong and Southern China to reach a destination further north — particularly if it involves dealing with intermediaries along the way — the savings in tariffs can justify the overland transport expenses.

Business success in China depends upon good relationships, or *guanxi*, to ensure each element of the business can proceed smoothly, including clearing a product through customs. Many foreign companies have hired one person to deal with customs officers full-time, or using the same personnel to deal with customs issues, to develop a good relationship with the customs officers. Customs clearance times have been reported to gradually improve under these circumstances.

Distribution options available to the Canadian exporter include direct sales, existing distribution networks and warehousing, agents and sales representatives, or establishing independent distribution networks. Of these, the best option for the small exporter exploring the Chinese market is likely the use of an agent or sales representative. There are attractive aspects to each of the other options, however, the market and retail knowledge possessed by an agent, in addition to established business contacts, make it the most cost effective option. As the exporter becomes more successful in the Chinese market, other channels of distribution will likely be more feasible and advantageous.

One of the most common import methods used by foreign companies is through a third-party import-export company based in Hong Kong. While these companies can manage product clearance through customs, and subsequent distribution in China, many of these companies use grey channels, including smuggling and false documentation, to avoid Chinese tariff and VAT requirements. The producer loses control over distribution by using these routes, sometimes resulting in the product being sold at prices determined by the distributor and retailer. Some products also never reach their destination, instead being re-exported for prices several times higher than the original price.

Importers and Intermediaries

Chinese importers usually prefer to establish direct trade links with foreign suppliers or to work through an intermediary in Hong Kong. However, intermediaries are falling out of favour with most Chinese importers because importing products directly reduces costs for local companies. Canadian companies attempting to enter the Chinese market will find it more cost effective to approach suitable buyers directly in the local market, where permitted. If a company is willing to incur the added expense, using an intermediary has the advantages of superior market intelligence and improved communication for customer servicing.

Direct Sales

Foreign companies generally are not permitted to directly engage in trade in China, other than through direct marketing of goods they have manufactured in China. The exception to this is that stores partially financed by foreign investment can import snack products directly, bypassing import and wholesale agencies. Beyond this, however, exporters need to use a domestic Chinese agent for both importation and marketing within the country. While companies are permitted to set up representative offices in China as a means of promoting their products and gaining market information, they are not allowed to engage in direct profit-making activity.

For companies with small sales volumes, there are benefits to establishing a sales branch office to perform direct sales to retailers. If utilizing a distributor, it allows the company greater control over distribution and enables the company to monitor the wholesaler. Alternatively, the company can bypass distributors and wholesalers, exerting more control over pricing, merchandising, and promotion of its products at retail stores. Direct contact with retailers will also help build business relationships.

Agents and Sales Representatives

Agents and sales representatives can provide vital links to distributors, wholesalers and the retail sector in general and can offer exporters a physical presence in the local market. Importation and distribution are undertaken by the manufacturer's agent or a trading firm. In cases where companies wish to establish their own distribution network, or to use another company's privately operated network, agents can assist in making contacts.

For initial forays into a new market, a good agent that knows the retail clientele, has good relationships with them, and knows the business etiquette in the market, is essential. As a new exporter becomes more accustomed to the market, and expands its knowledge of the market, less dependence upon the agent will be necessary.

Distributors and Wholesalers

Many established trading companies and distributors have exclusive agreements with their suppliers, which do not allow the distributor to represent a competitor. However, approaching distributors handling complementary products can lead to distribution contracts that will sell products through many of the same routes. If this kind of arrangement can be located and established, it could result in good cost and distribution advantages. Forming equity or contractual joint ventures can be advantageous to companies that plan to enter the rapidly developing markets of China and Asia. This is particularly true for companies whose products are expensive to ship. Distribution through existing networks will be less expensive than establishing new networks.

State/private wholesalers handle the majority of distribution in China. They are often the result of decentralization of state companies, becoming regional private sector companies with good government contacts to facilitate customs clearance and minimize bureaucracy, but limited in geographic area served. Prices are often competitive, with rapidly improving services, however product damage through poor handling can occur.

Foreign wholesalers offer wider national or multi-regional service in China, in addition to a more modern range of distribution services. Distribution networks through foreign

wholesalers are often extensive, and the exit cost is lower for the manufacturer if it needs to pull out of the market. However, foreign wholesalers are more expensive than domestic distributors, resulting in higher retail prices for the consumer. Local wholesalers are also generally more knowledgeable about the regional markets.

The choice of retailer to which the wholesalers deliver products is vital to the success of the product. Retail outlets in China can be classified into state-owned, collectively owned and privately owned enterprises, including individually owned distribution outlets. State-owned outlets are responsible for most of China's large department stores and account for about 40% of retail outlets. These outlets carry various domestic snack foods, but few imported products.

Collectively owned enterprises consist primarily of co-operatives in villages and towns, although there are also a number of shops in large cities that operate under this system. These enterprises carry limited amounts of imported snack foods. This retail distribution accounts for around 25% of the national distribution system. The Chinese government frequently exercises a large degree of control or supervision over the actions of these cooperatives.

Privately owned enterprises currently account for 20% of Chinese retail outlets, but their market share is predicted to grow at the expense of collectively owned enterprises. This sector includes the developing supermarket and hypermarket industry. Western-style supermarkets are new to China, but are developing rapidly. They carry the highest percentage of imported and Western-style snack foods, and provide the best entry point for imported snacks as they are geared towards more affluent Chinese consumers.

Local markets and convenience stores are the most prominent retail outlets for soft drinks, but this phenomenon is expected to change as the younger generations in China increasingly frequent new Western-style supermarkets.

Market-entry Considerations

Pricing: One of the main concerns when entering a new market is the pricing strategy. Endeavouring to enter the market by low product pricing may be futile if Chinese retailers mark up the price to boost their profit margins. Many foreign products are victims of premium pricing, despite marketing efforts to avoid this result. It may be necessary to endure this while trying to build better business relations with retailers through a Chinese agent. As brand recognition is established, and the product becomes more successful in the market, a move to produce locally will help lower manufacturing costs. The combination of lower manufacturing costs and being a local producer will help in lowering pricing, or increasing profit margins.

Packaging: For exporters trying to establish a market presence, packaging is a key consideration for successful product marketing. Packaging needs to be perfectly tailored to the unique conditions of the Chinese market as a whole (ie. adhering to Chinese packaging laws), while also appealing to the specific target consumers. For example, clear packaging can demonstrate how an individual product is different from its competitors, or can highlight the visual appeal of the product. A picture of the product can also be used to visually appeal to the consumer. Bright packaging, or toys on the packaging or inside can be successful in attracting the attention of children. "Distinguished" packaging for high quality, high priced, or "elite" items can make the consumer perceive the product to be worth a higher price, or that it is better quality than its competitors.

Package size is also an important consideration for many retail consumers, who prefer smaller packaging, as they tend to have little storage space in their homes. In addition, the fact that Chinese refrigerators tend to be smaller than those in North America means that there is little demand for multi-serving containers.

Advertising: Television advertising is the best means of reaching the huge mass market, and can be a key to increasing brand awareness and establishing brand loyalty among younger consumers (aged 18 to 35). While all forms of "comparative advertising" are banned, foreign advertisers can be successful by emphasizing quality and the image associated with the product. Exporters should note that in some cases the cost involved in advertising can be prohibitively high. Television advertising requires covering a broad range of channels, especially in Hong Kong. However, in contrast with North American homes, only a small percentage of Chinese families own televisions; therefore regional and market specific advertising is more advisable than a national campaign.

Outdoor advertising is also becoming more common. Wall posters, billboards, bus shelters and lamp-posts are all popular methods of outdoor advertising. Outdoor advertising is a longer-term investment, but can be ineffective if not used in conjunction with strong in-store promotions and point-of-sale material. The producer must be able to create brand recognition among consumers. Foreign advertisers tend to emphasize quality and image associated with their products. Thus, the products from foreign companies are often perceived to be of higher quality and worth higher cost.

Advertising costs in China's major cities can be expensive, however, which has led many smaller consumer goods producers to focus on smaller provincial capitals instead. For example, Beijing Oasis (Rougemont juice) concentrates its advertising funds into cities such as Tainjin, Wuhan, and Harbin, where advertising costs one-tenth of advertising in Shanghai, Beijing, or Guangzhou. The popularity and brand

awareness of its product filtered back into the major urban centres, creating a well-known product.

Transportation and Storage: Shipping by sea is the easiest and least expensive mode of transport. Many manufacturing plants are located, or are planned to be built, on the coast or along rivers, in order to take advantage of these natural transportation routes. The special economic zones, Xiamen, Shantou, Shenzhen, Zhuhai, and Hainan are all situated along the southeastern coast of China, and have full shipping access. Economic and technical development zone ports, with different regulations and economic benefits, are located along the full extent of the eastern seaboard.

Adequate amounts of storage facilities exist at most ports, but the quality of storage facilities is wanting. Most are adequate for general cargo, but companies importing frozen and refrigerated snack foods should note that these facilities are rarely climate controlled.

Once shipments reach China, rail is the cheapest form of transportation for locally manufactured goods, and offers access to more inland cities than any other mode of transportation. However, 10-12% of all freight is damaged due to mishandling. While domestic goods have priority, the addition of trains at fixed times and fixed prices between Beijing, Shanghai, and Chengdu have improved service. More routes have also been added to run between major urban centres and inland areas.

Trucking is the most efficient and cost effective distribution option, and has benefited from recent construction of new road systems linking major cities to surrounding regions. The government has also undertaken action to reduce the number of highway robberies and illegal toll charges enforced by police impersonators.

Suggested Business Practices

Canadian exporters need to understand the cultural nuances of doing business in China. Although productivity and output are important, they are usually secondary to good business relations. A combination of interpersonal relationships developed between business counterparts, and knowledge about the stability and permanence of the counterpart organization are key to good relations. The presence of a senior manager at negotiations is viewed as a guarantee of performance, and a sign of respect.

A formal introduction of all members of a delegation is important. A nod or a slight bow will usually be sufficient when greeting someone, but a handshake is most acceptable. Business cards should be exchanged among all members as well, with two hands, to show respect. If possible, have business cards translated into Chinese (the dialect will

be dependent upon the region of China in which transactions are taking place), or have a translator write family names in Chinese on the card.

When distributing written company information in China, companies are encouraged to provide Chinese translations of the material, since senior decision-makers in Chinese organizations are often unable to read English. The effort of obtaining translations will be interpreted as an indication of your commitment to doing business with the Chinese company.

Import Regulations

Tariff duties continue to be one of the main obstacles to exporting to China, though tariffs on most snack foods entering China are now less than 45%. In addition, importers must pay a 17% VAT, assessed on the cargo's value.

China maintains a large number of administrative controls to implement its trade and industrial policies, while having removed some non-tariff measures [NTMs], such as quotas and licensing requirements, on select items. China also restricts the type and number of entities within China that have the legal right to engage in international trade. Foreign exchange balancing regulations could also further restrict imports even for firms that possess the right to import. Moreover, despite recent moves to lower tariffs, China's tariffs remain prohibitively high on some products, while other tariffs have been successfully lowered. Negotiations to aimed at lowering more tariffs for products entering China are continuing.

Non-tariff barriers are administered at national and sub-national levels by the State Economic and Trade Commission (SETC), the State Development Planning Commission (SDPC) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). These non-tariff barriers include licences, quotas and other import controls. The level of imports permitted under these measures was determined through complex negotiations between the Central Government, the provinces, and Chinese ministries.

MOFTEC uses import licences to exercise an additional nationwide system of control over some imports. Many products are subject to both quotas and restrictions, in addition to import licensing requirements. For these products, MOFTEC must decide whether to issue a licence after permission has been granted by other designated agencies for importation. MOFTEC officials claim that import licences are issued automatically once other agencies have approved an import.

Although China's import approval process remains complex, China is taking some important steps to streamline the process and to reduce the range of imports subject to

non-tariff barriers. Central Government agencies have published many of their import administration laws and regulations, a step that is making China's trade regime more transparent.

China acted to reduce tariffs pursuant to its bilateral commitments in an effort to boost its World Trade Organization (WTO) accession bid. The country brought its average import tariff down to 23% in 1997, while making tariff reductions on more than 4 000 tariff line items, and is committed to lowering its average nominal tariff to 15% by 2000.

In addition to tariffs, imports may also be subject to value-added and other taxes. Such taxes are to be charged on both imported goods and domestic products, but application has not been uniform, and these taxes may be subject to negotiation. China has used the combination of tariffs and other taxes to clamp down on imports that officials viewed as threatening domestic industries.

Businesses selling goods into China often complain about China's customs valuation practices, as different ports of entry may charge different duty rates on the same products. Because there is flexibility at the local level in deciding whether to charge the official rate, actual customs duties are often the result of negotiations between business people and Chinese customs officers.

Since 1988, China has established a number of duty-free import/export zones and five special economic zones: three in southern Guangdong province, one in southern Fujian and one on the island of Hainan. These zones facilitate foreign investment and trade by offering lower business tax rates and operating costs, better investment climate, more developed infrastructure, and lower local taxes and rent. In deciding where to locate, some foreign firms have found that the willingness of authorities to cater to specific needs of the investor is more important than the official incentives mentioned above. Attracting business to their region for jobs and economic spin-offs for the region result in benefits for companies, in addition to those provided in the special economic zones. Cheap labour, additional tax breaks, easing of construction restrictions, and low property and construction costs attract the business, while extra perks are developed for ownership and management. Though the special zones provide incentives, investors should bear in mind distance to the target market, as well as the availability of supplies and labour.

Documentation: A number of documents required for product entry into China, including:

- commercial invoices (always required; there is no specific format that they must follow);
- pro-forma invoice (may be required when negotiating the import contract);

- bills of lading;
- packing list (required for each shipment -- at a minimum, the list must note the weight and contents of each package);
- certificates of origin (may be requested, although a standard form is usually issued);
- sales contract;
- insurance certificate (required only if the exporter is insuring the shipment -- the Chinese usually insure the products themselves);
- import quota certificate (required for general commodities, where applicable); and
- import licence (required if the importer is not registered as a national foreign trade corporation).

Where applicable, inspection certificates issued by the State Administration of Import Commodity Inspection or its local bureau are required. Any special requirements should be detailed in the importing contract for each transaction.

In general, exporters must comply with the instructions of the importer or shipper regarding the required number of copies of each document. The information in each document should correspond exactly to the details contained in other documents for the same shipment. The description of the goods must be clear and concise and must incorporate all relevant details and costs. An official of the exporting firm (or authorized agent) is required to sign the respective documents.

Mail and parcel post shipments require postal documentation in place of bills of lading. Air cargo shipments require air waybills in place of bills of lading. A caption reading "The People's Republic of China" should appear on the documentation, and all parcels should be sealed.

Authentication of documents: The Chinese government requires that some documents be authenticated, such as certificates of sale and letters authorizing an exporter's local agent or importer to act on their behalf. Companies are encouraged to rely on their local agents to inform them of the specific requirements for their product. Documents should be notarized in Canada and can be authenticated at no cost to the exporter by forwarding them to:

Department of Foreign Affairs and International Trade
Authentication and Service of Documents (JLAC)
125 Sussex Dr.
Ottawa, ON K1A 0G2
ATTN: Mario Nuñez-Suarez
Tel: (613) 992-6602
Fax: (613) 992-2467

Local Standards, Certificates or Registrations

China continues to use standards and certification practices that their trading partners regard as barriers to trade. China often requires testing and certifications of foreign products to ensure compliance with standards and specifications unknown and or unavailable to the exporter. Trade commissioners at the Canadian embassies in Hong Kong or Beijing will be able to help exporters by providing updated information in these areas. The China Customs Authority is also listed in the contacts section of this report.

Despite market access agreements, China continues to use non-tariff based measures such as health, animal health, phytosanitary and food safety standards, and certifications to limit foreign competition. In particular, China's phytosanitary standards are often strict and unevenly applied, in excess of internationally accepted criteria.

The National Health and Quarantine Administration requires that all imported food items be affixed with a laser sticker indicating the safety of the product. Importers are charged five to seven cents a sticker, and the stickers must be affixed by state officials.

As of September 1, 1996, Chinese law requires that all food products (domestic and imported) have Chinese labels clearly stating the type of food, brand name, trademark, manufacturer name and address, country of origin, ingredients, net weight, date of production, and product expiry date. Other information may appear on the label, but the Mandarin (simplified characters) language requirements must be met. New labelling requirements are consistent with what the consumer demands and will aid in protecting consumers, producers and retailers from fake, inferior or expired food entering the market.

While labels must be written in Chinese, it is recommended that exporters also include information in English (the appearance of which on products is not banned in China), as it helps market products and enhances product quality image by lending credibility to company claims that the product is either imported or produced by a joint venture.

Export Credit Risks, Restrictions on Letters of Credit or Currency Controls

Letters of credit account for almost 80% of all export financing and payment transactions to China. While open accounts may be used, they are not recommended for companies new to the Chinese market. Credit terms typically vary between 60 and 90 days.

Remittances in Renmimbi, the local currency, remain generally sound. Foreign exchange delays of one to two months are currently reported after local currency cover is made. Local currency delays average up to one month, and the import cover is currently six to eight months.

PROMOTIONAL EVENTS

Event/Description	Organizer
Asian International Exhibition of Food & Drink, Hotel, Restaurant, Supermarket (HOFEX) May 4-7, 1999 Hong Kong Convention & Exhibition Hong Kong, China (Biennial) Food & consumer products, beverages, processing & service equipment, catering equipment	Hong Kong Exhibition Services Ltd. 9th Floor, Shiu Lam Building 23 Luard Rd. Wanchai, China Tel: (852) 2804-1500 Fax: (852) 2528-3103 exhibit@hkesmontnet.com.hk
Food Ingredients China 99 July 14-17, 1999 Shanghai, China Food and beverage ingredients, flavours & colourings used in modern food manufacturing	Hong Kong Exhibition Services Ltd. 9th Floor, Shiu Lam Building 23 Luard Rd. Wanchai, China Tel: (852) 2804-1500 Fax: (852) 2528-3103
Qingdao Food Processing, Brewery & Beverages November 16-19, 1999 Qingdao, China Food & Beverage and Food Processing	China Promotion Ltd Room 1703, Tung Wai Commercial Bldg. 109 Gloucester Road Wanchai Hong Kong Tel: (852) 2511-7427 Fax: (852) 2511-9692 http://www.hk.super.net/~cpexhbit
Food China 2000 June 20-23, 2000 Beijing, China (Annual: rotating Shanghai & Beijing) Food & food products; bakery & confectionery products & equipment; and more.	Hong Kong Exhibition Services Ltd. 9th Floor, Shiu Lam Building 23 Luard Rd. Wanchai, China Tel: (852) 2804-1500 Fax: (852) 2528-3103
Food China 2000 Shanghai Shanghai, China November 22-25, 2000 (Annual: rotating Shanghai & Beijing) Food & food products; bakery & confectionery products & equipment; and more.	Hong Kong Exhibition Services Ltd. 9th Floor, Shiu Lam Building 23 Luard Rd. Wanchai, China Tel: (852) 2804-1500 Fax: (852) 2528-3103

KEY CONTACTS AND SUPPORT SERVICES

Canadian Embassy
19 Dongzhimenwai Dajie
Chaoyang District
Beijing, China 100600
Tel: (86-10) 6532-3536
Fax: (86-10) 6532-4072
E-mail: td.bejing@bejing03.x400.gc.ca
Internet: http://www.dfait-maeci.gc.ca/ni-ka
Contact: Mr. Bruce Howard

Consulate General of Canada, Hong Kong
Commercial Division
13/F, Tower 1
Exchange Square
Central, Hong Kong, China
Tel: (852) 2847-7414
Fax: (852) 2847-7441
E-mail: commerce@hkong02.x400.gc.ca
Internet: http://www.canada.org.hk/english/index.html

China Customs Authority
Director General
Customs General Administration of the People's Republic of China
Avenue Jian-Guo-Men Nei, 6
Beijing, China
Tel: (86-10) 519-5244
Fax: (86-10) 519-4004

Department of Foreign Affairs & International Trade
China Division
125 Sussex Dr.
Ottawa, ON K1A 0G2
Contact: Ian Burchett
Tel: (613) 992-6129
Fax: (613) 943-1068

National Health & Quarantine Administration of P.R.C.
No.4, Section 2, Anhuili
Chaoyang District, Beijing, China
100101
Tel: (86-10)64912732
Fax: (86-10)64912733

Agriculture and Agri-Food Canada
International Markets Bureau
930 Carling Ave., 10th Floor
Ottawa, ON K1A 0C5
Contact: Jane Morriset
Tel: (613) 759-7637
Fax: (613) 759-7506
E-mail: morrisetj@em.agr.ca

Alliance of Manufacturers and Exporters Canada
75 International Blvd., 4th Floor
Toronto, ON M9W 6L9
Tel: (416) 798-0000
Fax: (416) 798-8050
Internet: http://www.plantir.ca/the-alliance
E-mail: national@the-alliance.com

Business Development Bank of Canada
#400, 5 Place Ville Marie
Montreal, PQ H3B 2G2
Tel: 1-888-463-6232
Fax: (514) 283-0617
Internet: http://www.bdc.ca/

Canadian Commercial Corporation
Metropolitan Centre
50 O'Connor St., 11th Floor
Ottawa, ON K1A 0S6
Tel: 1-800-748-8191 or (613) 996-0034
Fax: (613) 995-2121
Internet: http://www.ccc.ca
E-mail: info@ccc.ca

Department of Foreign Affairs & International Trade
Market Support Division
125 Sussex Dr.
Ottawa, ON K1A 0G2
Tel: 1-800-267-8376 or (613) 995-1773
Fax: (613) 943-1103

Export Development Corporation
151 O'Connor St.
Ottawa, ON K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
E-mail: export@edc4.edc.ca
Internet: http://www.edc.ca

Agriculture and Agri-Food Canada

The Agri-Food Trade Service regional contacts:

Al McIsaac
St. John's, NF
Tel.: (709) 772-0330
E-mail: mcisaaca@em.agr.ca

Shelley Manning
Halifax, NS
Tel.: (902) 426-2137
E-mail: mannings@em.agr.ca

Bernard Mallet
Moncton, NB
Tel.: (506) 452-3732
E-mail: malletb@em.agr.ca

Chris Pharo
Charlottetown, PEI
Tel.: (902) 566-7310
E-mail: pharoc@em.agr.ca

Marc Chénier
Montréal, QC
Tel.: (514) 283-3815 (510)
E-mail: chénierm@em.agr.ca

Nancy Cherny
Guelph, ON
Tel.: (519) 937-5856
E-mail: chernyn@em.agr.ca

Fay Abizadeh
Winnipeg, MB
Tel.: (204) 983-8622
E-mail: abizadehf@em.agr.ca

Roy Gordon
Regina, SK
Tel.: (306) 780-7134
E-mail: gordonr@em.agr.ca

Rodney Dlugos
Edmonton, AB
Tel.: (403) 495-5526
E-mail: dlugosr@em.agr.ca

Max Xiao
New Westminster, BC
Tel.: (604) 666-9353
E-mail: siaom@em.agr.ca

Chambers of Commerce and Industry Associations

Asia-Pacific Foundation of Canada
999 Canada Place, Suite 666
Vancouver, BC V6C 3E1
Tel: (604) 684-5986
Fax: (604) 681-1370
Has extensive databases on relationships between Canada and Asia.

Beijing Economic Development Corporation
3 Taijiang
Beijing, China
Tel: (86-10) 551-071

Dah Sing Bank
Central Branch
19 Des Voeux Rd.
Central, Hong Kong, China
Tel: (852) 2521-8118
E-mail: ops@dahsing.com.hk
Internet: http://www.Dahsing.com.hk/index.html

Fujian Investment Enterprise Corporation
185 Bayiqi Road, N.
Fuzhou, Fujian Province, China
Tel: (86-10) 33093

International Bank of Asia
International Bank of Asia Building
38 Des Voeux Rd.
Central, Hong Kong, China
Tel: (852) 2842-6222
Fax: (852) 2845-3596
Internet: http://www.iba.com.hk/

Shanghai Investment and Trust Corporation
111 Jiujiang Road
Shanghai, China.
Tel: (86-21) 323-1111

Tianjin International Trust and Investment Corporation
36 Hubei Road
Tianjin, China
Tel: (86-22) 36394 or (86-22) 35583

Commercial Banks in China

Bank of America (Asia)
Consumer Business Center
1/F, Bank of America Tower,
12 Harcourt Road
Hong Kong, China
Tel: (852) 2847-5588
Internet: http://www.bankamerica.com.hk/

Bank of China
10 Fuchengmen Nei Dajie
Beijing 100818, China
Tel: (86-10) 6601-6688
Fax: (86-10) 6601-6869
Internet:
http://www.bank-of-china.com/report/report_e/report96_e.html

Bank of East Asia
19/F, Bank of East Asia Building
10 Des Voeux Road
Central, Hong Kong, China
Tel : (852) 2842 3467
Fax : (852) 2845 9747
Internet: http://www.hkbea.com/

Dao Heng Bank
The Center
99 Queen's Road
Central, Hong Kong, China
Tel: (852) 2218-2706
Fax: (852) 2285-3313
http://www.daoheng.com/

Hang Seng Bank
Level 4, 83 Des Voeux Rd.
Central, Hong Kong, China
Tel: (852) 2825-5388
Fax: (852) 2801-4914
Internet: http://www.hangseng.com/hse.html

Hong Kong Bank
1 Queen's Road
Central, Hong Kong, China
Tel: (852) 2822-1111
Fax: (852) 2810-1112
Internet: http://www.hongkongbank.com/

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PR Newswire. "Want Want Holdings Ltd. and General Mills Agree to Establish Snacks Joint Venture in China," August 5, 1997.

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United States Department of Agriculture. *Snack Foods in Shanghai – Market Brief*, 15 November 1996.

OTHER REFERENCE MATERIAL

Useful Internet Sites

Agri-Food Trade Service: **http://www.atn-riae.agr.ca**

Bureau of Monetary Affairs Ministry of Finance: **http://www.boma.gov.tw/english/index.htm**

Canada Business Service Centres (1-888-811-1119): **http://www.cbsc.org**

Canada China Business Council: **http://www.ccbc.com/**

Canadian Chamber of Commerce in Hong Kong: **http://www.cancham.com.hk/**

China Business World: **http://cbw.com/business.html**

China Council for the Promotion of International Trade (CCPIT) and
China Chamber of International Commerce (CCOIC): **http://www.ccpit.org/**

China Health Quarantine & Food Hygiene Supervision: **http://www.chf.gov.cn/chf_e.htm**

China, Hong Kong Business: **http://www.chinapoint.com/websites/directory/asia/categories.htm**

China Pages, China Business Information Resources: **http://www.chinapages.com/**

China Today: **http://www.chinatoday.com/**

Chinese Embassy in Ottawa: **http://www.buildlink.com/embassy/**

Consulate-General of Canada in China: **http://www.canada.org.hk/**

Cultural Etiquette in China: **http://www.citsusa.com/etiquette.html**

Department of Foreign Affairs and International Trade: **http://www.dfait-maeci.gc.ca**

Europe-China-Hong Kong Business Directory: **http://www.chinapoint.com/china.htm**

ExpoGuide: **http://www.expoguide.com/**

Exportsource: **http://exportsource.gc.ca/**

Hong Kong Trade Development Council: **http://www.tdc.org.hk/**

InfoExport: **http://www.infoexport.gc.ca**

Ministry of Foreign Trade and Economic Cooperation (MOFTEC): **http://www.moftec.gov.cn/**

Special Economic and Technological Development Zones: **http://www.sezo.gov.cn/eindex.htm**

Strategis: **http://strategis.ic.gc.ca/**

Tradeport: **http://www.tradeport.org**

Trade Show Central: **http://www.tscentral.com**

US Department of Agriculture: **http://www.fas.usda.gov/**

World Bank: **http://www.worldbank.org/**